

Message Text

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72

ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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PASS TREASURY FOR LEDDY

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: GERMANY WANTS IMPROVED SECURITY IN
EURO-DOLLAR MARKETS

1. SUMMARY. REFERENCES IN BOTH US AND GERMAN PRESS THAT GERMANY WISHES TO SECURE CLOSER COOPERATION BETWEEN CENTRAL BANKS AND PERHAPS A FORM OF INTERNATIONAL BANKING SUPERVISORY AUTHORITY HAVE BEEN DISCUSSED WITH OFFICIALS OF THE FINANCE MINISTRY AND THE BUNDESBANK. SAVE FOR BROAD REFERENCES TO THE ISSUE PROVIDED BY CHANCELLOR SCHMIDT IN RECENT INTERVIEWS, LITTLE HAS ACTUALLY BEEN TRANSLATED INTO CONCRETE PROGRAMS OR PROPOSALS. END SUMMARY.

2. IN CONVERSATIONS WITH OFFICIALS IN THE FRG FINANCE MINISTRY AND THE BUNDESBANK IT SEEMS CLEAR THAT, DESPITE RECENT PRESS REPORTS THAT CHANCELLOR SCHMIDT WOULD LIKE TO ACHIEVE CLOSER COOPERATION
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BETWEEN CENTRAL BANKS AND AN INTERNATIONAL BANKING

SUPERVISORY AUTHORITY, NO SPECIFIC PROPOSALS HAVE BEEN DEVELOPED.

3. THE PRINCIPAL WORRY OF SCHMIDT, OF COURSE, IS THAT SMOOTH OPERATION OF THE EURO-DOLLAR MARKET IS SERIOUSLY THREATENED BY LARGE INFLOWS OF SHORT-TERM MONEY FROM THE OIL PRODUCING NATIONS WHICH IN TURN MUST BE LENT BY EUROPEAN BANKS FOR LONGER PERIODS. MORE IMPORTANTLY, HOWEVER, SCHMIDT SEES THE ABSENCE OF REQUIREMENTS WHICH IN SOME WAY RELATES THE VOLUME OF CREDIT PROVIDED BY INDIVIDUAL BANKS TO A FIXED PERCENTAGE OF THE BANK'S CAPITAL AS THE GREATEST CURRENT DANGER. WITHIN THE FRG THIS CONCERN HAS RECEIVED TREATMENT IN THE FORM OF A PROPOSAL NOW BEFORE THE GERMAN SUPERVISORY AUTHORITY WHICH WOULD LIMIT GERMAN BANKS' OPEN FOREIGN EXCHANGE POSITION TO 20 PERCENT OF ITS CAPITAL STOCK.

4. THE BUNDESBANK OFFICIAL WITH WHOM WE SPOKE WAS AWARE OF NO SPECIFIC PROPOSALS FOR TIGHTER INTERNATIONAL CONTROL OF THE EURO-DOLLAR MARKETS BEING CONSIDERED BUT FELT RATHER THE ISSUE WOULD BE RAISED FOR BROAD GENERAL DISCUSSION AT THE UPCOMING BASEL CENTRAL BANK COUNCIL MEETING.
CASH

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